Savills Research
UK Residential
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Spotlight | July 2018

Prime residential rents

Summary Across the prime London and commuter zone markets rents continue to soften, but to a lesser extent than seen previously. Demand remains high for properties of the best condition and price

- Rents across the prime market have continued to soften. During the past 12 months, rents in the prime London market have fallen by 2.7%, while rents in the prime markets of the commuter zone have fallen by 1.5%.
- In prime central London, where rents have had the largest correction, demand from international tenants remains high. This demand is focused on properties that offer the best amenities, are of the best condition, or present something unique.
- The more domestic markets across the rest of prime London are experiencing higher demand for family houses. Often, landlords are negotiating longer tenancies on larger properties as a strategy to prevent void periods between tenancies.
- Prime market rents in the capital's commuter zone have fallen to a lesser extent. There is strong demand for family houses from corporate tenants relocating with their families who want to be near the best schools.
- Increasingly, tenants are looking for best-in-class property at the best price, and will be flexible in their choice of location to achieve this. To retain demand, landlords will need to remain flexible in their offering.

Market summary

The prime rental market has continued to see rents soften, falling for the tenth consecutive quarter across the London market.

Over the past 12 months, prime rents across the capital have fallen by 2.7%, with a fall of 1.5% in the prime markets of the commuter belt.

There continues to be a high level of supply across pockets of the market, which is limiting rental growth. Likewise, some areas have also had an increase in accidental landlords – those who have brought property that is struggling to sell into the rental market instead.

Overall, demand is being propped up by needs-based tenants at the lower end of the market, those at the top end who are choosing to rent rather than buy, and international tenants who continue to see the appeal of having a base in London.

Tenants are increasingly driven by finding the best-in-class property at the best price, and continue to be flexible in their choice of location to achieve this.

To retain demand, there is an increasing trend for longer tenancies. We've seen the average tenancy length across the prime market increase from 15.1 months in 2013/14 to 16.9 months over the past 18 months.

In order to remain competitive, landlords will need to remain flexible and creative in their offering.

Rental values to Q2 2018 Although prime London rents continue to slide, it is at a slower rate

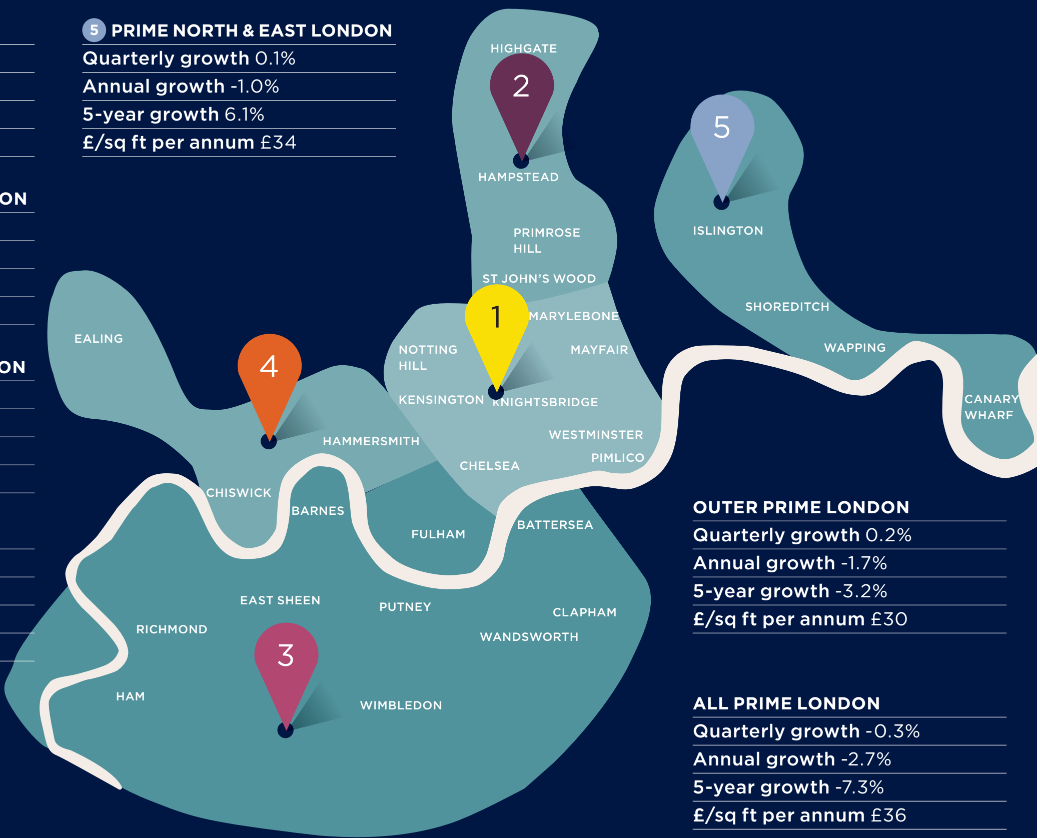
1 PRIME CENTRAL LONDON
- **Quarterly growth** -1.2%
- **Annual growth** -4.8%
- **5-year growth** -14.2%
- **£/sq ft per annum** £49

2 PRIME NORTH WEST LONDON
- **Quarterly growth** 0.7%
- **Annual growth** -1.1%
- **5-year growth** -3.9%
- **£/sq ft per annum** £41

3 PRIME SOUTH WEST LONDON
- **Quarterly growth** 0.0%
- **Annual growth** -2.2%
- **5-year growth** -5.6%
- **£/sq ft per annum** £26

4 PRIME WEST LONDON
- **Quarterly growth** 0.1%
- **Annual growth** -1.9%
- **5-year growth** N/A
- **£/sq ft per annum** £28

5 PRIME NORTH & EAST LONDON
- **Quarterly growth** 0.1%
- **Annual growth** -1.0%
- **5-year growth** 6.1%
- **£/sq ft per annum** £34



OUTER PRIME LONDON
- **Quarterly growth** 0.2%
- **Annual growth** -1.7%
- **5-year growth** -3.2%
- **£/sq ft per annum** £30

ALL PRIME LONDON
- **Quarterly growth** -0.3%
- **Annual growth** -2.7%
- **5-year growth** -7.3%
- **£/sq ft per annum** £36

Source Savills Research

Prime central London

Rents in prime central London had the largest correction during the past year, falling 4.8%. Although rents continue to slide, it is at a slower rate than the previous year, suggesting that the imbalance of supply to demand is starting to even out.

The prime central London rental market has a broad demographic, with international tenants accounting for almost two-thirds of the market. And yet, there is a consistent preference for best-in-class properties.

Properties that continue to see strong demand, particularly from super-prime tenants (with a budget of more than £4,000 a week), are those that offer the best amenities, are of the highest specification, or offer something unique. As such, properties in an immaculate condition can command a premium of almost 17% above the average rent for the prime central London market.

Flats have generally performed better than houses, with many international tenants preferring the lateral space of an apartment to the traditional townhouse.

This is especially true in markets which have experienced higher levels of new build properties coming to the market as rental stock. In Earl's Court, rents for flats fell by just 1.2% over the past year, compared with a fall of 4.9% for houses.

Outer prime London

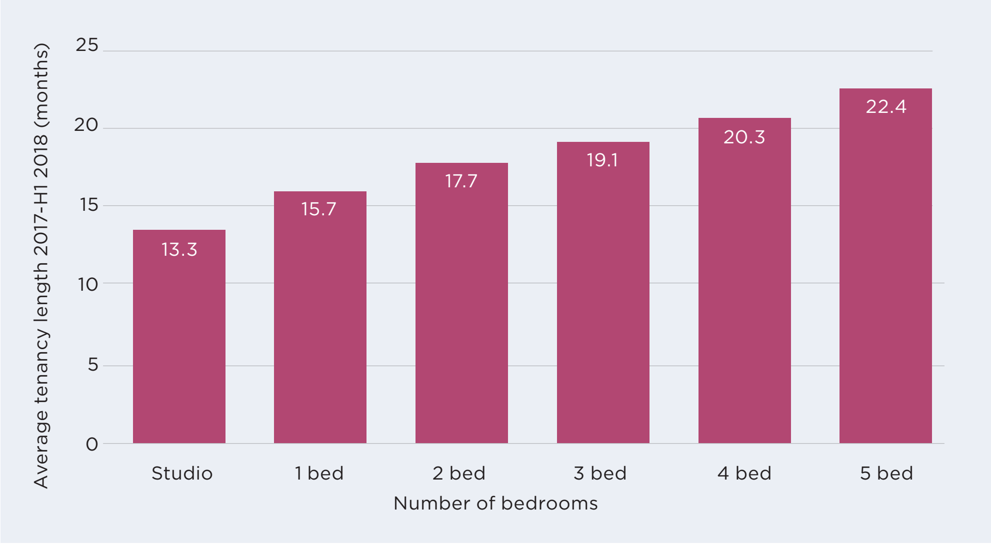
Markets across prime London, beyond the central district, have had a smaller correction in rents over the past year, falling 1.7%. This ranges from a drop of 1.0% in prime North and East London (covering markets such as Islington and Canary Wharf), to a larger fall of 2.2% across South West London – stretching from Clapham to Richmond.

These markets tend to be more domestic and attract more families – particularly in the North West and South West markets. As such, there is more demand for family houses when they are priced correctly. Rents for prime houses in St John's Wood fell by just 0.7% over the past year, compared with a fall of 3.5% for all houses across the market.

Despite this, some markets, such as Battersea, are seeing stronger demand for lateral apartments, particularly from European and American tenants who are taking advantage of the value gap of these markets compared with more central ones such as Chelsea.

Value continues to be a major driver for tenants. Across all the outer prime London regions, lower-value properties have outperformed higher-value ones. And tenants continue to be footloose in their choice of location to get the best property they can at the best price.

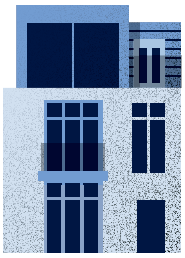
"Markets such as Battersea are seeing stronger demand for lateral apartments"



Source Savills Research

Tenancy extension
Across the prime London market, the average tenancy length over the past 18 months has increased by 16% compared with five years ago. Landlords are negotiating longer tenancies as a way to secure tenants and prevent void periods, particularly on larger and more expensive properties.

Prime suburbs
Annual growth: -2.9%



Prime inner commute
Annual growth: -1.0%

Prime outer commute
Annual growth: -0.7%

Prime commuter zone

During the second quarter of 2018, rents in the prime markets of London's commuter zone increased by a margin of 0.8%, yet fell 1.5% over the year.

The prime suburbs of London, including markets such as Cobham and Northwood, have seen the largest correction in rents over the past year at -2.9%. These markets have seen higher levels of supply from accidental landlords, but this is often family-sized stock.

Demand for family homes is strong in the lead-up to the start of the new school year, particularly in the mid-market. Much of this is being driven by corporate relocators moving with families, particularly in the oil and gas industry across Surrey, as well as the diplomatic sector. However, some budgets are smaller than they used to be.

Similarly, best-in-class properties are performing strongest in these markets and the initial price that the property is brought to the market at remains absolutely key.

Outlook

Pressure on the buy to let market, with the stamp duty surcharge and more recent cuts to interest relief for mortgaged investors, means we are beginning to see some landlords re-evaluate their portfolio. This could mean we see less secondhand stock coming to the market, which may help to balance the supply and demand dynamic.

In terms of demand, the ongoing Brexit negotiations could continue to impact sentiment – particularly in the corporate relocation market. Yet this may also mean that we continue to see would-be buyers entering the rental market as tenants as they wait to see what unfolds.

Across the London market, there is, of course, a larger new build pipeline, with completions due to peak over the next few years. This is likely to limit any significant rental growth.

With brand new stock coming to the market, landlords of secondhand property must make sure they are presenting properties of the best possible condition, and consider the cost of refurbishment as an investment to prevent a void period.

Landlords will also need to remain flexible on terms and the package they include to stay competitive. Pricing appropriate to the current market conditions remains crucial.

Prime rental forecast We expect rental falls to continue in the short term

	2018	2019	2020	2021	2022	5-year compound growth
Prime London	-3.0%	1.0%	2.0%	4.0%	3.0%	7.0%
Prime commuter zone	-1.0%	1.0%	2.0%	3.0%	3.0%	8.2%

Source Savills Research **Note** These forecasts apply to average rents in the secondhand market. New build values may not move at the same rate

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